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DE RUEHNR #4020 2571445
ZNR UUUUU ZZH
P 141445Z SEP 06
FM AMEMBASSY NAIROBI
TO RUEHC/SECSTATE WASHDC PRIORITY 4304
INFO RUEHXR/RWANDA COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS NAIROBI 004020

SIPDIS

DEPT FOR AF/E, AF/RSA
DEPT ALSO PASS TO USTR FOR BILL JACKSON
TREASURY FOR OREN WHYCHE-SHAW

SIPDIS

E.O. 12958: N/A
TAGS: EFIN ECON ETRD KE
SUBJECT: S&P Gives Kenya Sovereign Credit Rating Grade B

REF: NAIROBI 3068

¶1. Summary: In its first sovereign credit review, Kenya earned a "stable" outlook, grade 'B+' long-term foreign currency, and 'BB-' long-term local currency credit ratings from Standard and Poor's (S&P), making GOK securities below the minimum BBB- rating for investment grade. The private sector in Kenya had called for such a review. The GOK hopes it will lead to reduced interest rates and increased investment, and may see the rating as a viable substitute for an active IMF program. End Summary.

¶2. In his June 15 budget presentation, Finance Minister Kimunya announced that the GOK would hire Standard and Poor's to carry out a credit review and provide Kenya its first sovereign rating. The private sector has for several years called for the review, and Kimunya declared it would improve Kenya's creditworthiness and encourage foreign direct investment. Kimunya also believed it would stimulate domestic investment through lower interest rates, as cheaper financing from international markets forces banks in Kenya to compete by lowering their rates.

¶3. On September 8, S&P Ratings Services announced it assigned Kenya a B+ rating on long-term foreign currency and BB- rating on long-term local currency sovereign credit ratings. S&P also assigned Kenya grade B for short-term foreign and local currency ratings, and noted Kenya's outlook is stable. Kenya's rating is equal to Benin, Ghana and Senegal, above ratings for Madagascar, Mali, Burkina Faso, and well below South Africa's. The rating cited Kenya's economic growth and other positive factors. It noted that Kenya's political environment is often partisan, but the government has passed a number of economic reforms. Challenges facing the government include progress on prosecuting corruption cases, a high level of infrastructure and development needs, high oil prices, and appreciation in the Kenyan shilling.

¶4. In S&P's public statement, credit analyst Tim Reid stated, "The ratings on Kenya are constrained by low levels of economic development and by a vulnerability to exogenous shocks, generated both externally, by terms-of-trade deterioration, and domestically, by governance scandals. The ratings are supported, however, by the government's continued progress in implementing economic reform and by the strengthening of macroeconomic and political stability...We expect the Kenyan government to continue pursuing prudent macroeconomic policies that reinforce confidence and stimulate economic growth... Positive ratings momentum could be generated by more broad-based economic growth, underpinned by a better investment environment within the country." The S&P statement noted that "A loss in momentum in the government's reform agenda and any indication of significant fiscal slippage would undermine Standard & Poor's assessment of the sovereign's creditworthiness."

¶5. S&P's BB grade means an obligation is less vulnerable to

nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. S&P's lower B rating means an obligation is more vulnerable to nonpayment, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

¶6. Comment: We understand that BBB- is the minimum sovereign rating for government bonds to be considered investment grade, but the GOK regards the rating as very positive and hopes it will help attract investment. Even if the GOK regards the S&P rating as a possible substitute stamp of approval in place of an IMF program, the S&P rating explicitly lists the same areas needed for improvement as have the donors. We will see if the GOK can use the S&P finding to push through the reforms everyone agrees are needed to improve Kenya's competitiveness, attract investment and sustain higher economic growth.

Ranneberger